GOVERNMENT OF INDIA
FINANCE
LOK SABHA

UNSTARRED QUESTION NO:1452
ANSWERED ON:08.03.2002
INVESTMENT FLUCTUATION RESERVE
MOHAN RAWALE

Will the Minister of FINANCE be pleased to state:

(a) whether the Reserve Bank of India recently came out with guidelines to transfer gains on sale of investment to the investment fluctuation reserve; and

(b) if so, the details thereof ?

Answer

MINISTER OF STATE IN THE MINISTRY OF FINANCE(SHRI BALASAHEB VIKHE PATIL)

(a)&(b): Yes, Sir. Reserve Bank of India (RBI) vide guidelines dated 10th January, 2002 advised all scheduled commercial banks to transfer the gains realised on the sale of investments to Investment Fluctuation Reserve (IFR) account.These guidelines, inter-alia, stipulate that the banks should achieve IFR of a minimum of 5% of their portfolio within a period of 5 years.Banks to ensure that the unrealised gains on valuation of their investment portfolio are not taken to their income account or to the IFR.Individual scrips held under the `Available for Sale category` should be marked to market at least at quarterly intervals.

The guidelines aim to caution the banks on the need to follow more prudent policy for utilising the gains realised on sale of investment in securities arising from the decline in interest rates and for building up adequate reserves to guard against any possible reversal of the interest rate environment in future due to unexpected developments.